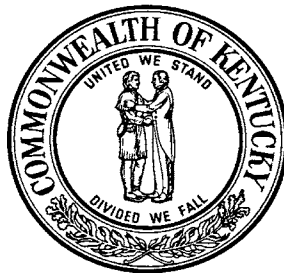


**REPORT OF THE AUDIT OF THE  
FORMER BRACKEN COUNTY  
CLERK**

**For The Period January 1, 2002  
Through January 5, 2003**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
[www.kyauditor.net](http://www.kyauditor.net)

144 CAPITOL ANNEX  
FRANKFORT, KY 40601  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER BRACKEN COUNTY CLERK**

**For The Period January 1, 2002  
Through January 5, 2003**

The Auditor of Public Accounts has completed the former Bracken County Clerk's audit for the period January 1, 2002 through January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

Excess fees decreased by \$2,856 from the prior calendar year, resulting in excess fees of \$17,676 as of January 5, 2003. Revenues decreased by \$2,275 from the prior year and disbursements increased by \$581.

#### **Report Comment:**

- Lacks Adequate Segregation Of Duties

#### **Deposits:**

As of April 2, 2002, the former Clerk's collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$10,759 of public funds uninsured and unsecured.

#### **Grant:**

The former County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives. The unexpended grant balance was \$8,355 as of January 5, 2003.

#### **Equipment Lease Agreements:**

- A. The former County Clerk's office was committed to a lease agreement with Toshiba for two copiers. The total balance of the agreement was \$9,584 as of January 5, 2003.
- B. The former County Clerk's office was also committed to a lease agreement with Francotyp-Postalia for a postage meter machine. The total balance of the agreement was \$0 as of January 5, 2003.

#### **Hardware and Software Lease Agreements:**

- A. The former County Clerk's office entered into a computer hardware purchase and service agreement with Software Management, Inc. The total balance of the agreement was \$11,222 as of January 5, 2003.
- B. The former County Clerk's office also entered into a software license and service agreement with Software Management, Inc. The total balance of the agreement was \$11,750 as of January 5, 2003.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES .....	3
NOTES TO FINANCIAL STATEMENT .....	6
COMMENT AND RECOMMENDATION .....	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	15





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Leslie Newman, Bracken County Judge/Executive

Honorable Karen Rumford, Former Bracken County Clerk

Honorable Rae Jean Poe, Bracken County Clerk

Members of the Bracken County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Clerk of Bracken County, Kentucky, for the period January 1, 2002 through January 5, 2003. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Clerk for the period January 1, 2002 through January 5, 2003, in conformity with the modified cash basis of accounting.



To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Leslie Newman, Bracken County Judge/Executive

Honorable Karen Rumford, Former Bracken County Clerk

Honorable Rae Jean Poe, Bracken County Clerk

Members of the Bracken County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 6, 2003, on our consideration of the former County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -

March 6, 2003

BRACKEN COUNTY  
KAREN RUMFORD, FORMER COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Period January 1, 2002 Through January 5, 2003

Receipts

State Grants		\$	41
State Fees For Services			
Election Personnel	\$	2,772	
Preparing Tax Bills		810	
New Voter Registration		150	
Miscellaneous		77	3,809
Fiscal Court			
Fiscal Court Clerk Salary	\$	8,127	
Preparing Tax Bills		2,310	
Election Commissioners		750	11,187
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	176,143	
Usage Tax		485,544	
Tangible Personal Property Tax		534,401	
Liens		2,158	
Licenses-			
Fish and Game		12,365	
Marriage		2,243	
Occupational		856	
Deed Transfer Tax		16,177	
Delinquent Tax		36,759	1,266,646
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	8,717	
Real Estate Mortgages		19,270	
Chattel Mortgages and Financing Statements		25,932	
Powers of Attorney		364	
All Other Recordings		11,299	
Charges for Other Services-			
Candidate Filing Fees		1,390	
Copywork		1,647	
Miscellaneous		6,682	75,301

The accompanying notes are an integral part of this financial statement.

BRACKEN COUNTY  
 KAREN RUMFORD, FORMER COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Period January 1, 2002 Through January 5, 2003  
 (Continued)

Receipts (Continued)

Interest Earned	\$	495
Total Receipts	\$	1,357,479

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	134,181
Usage Tax		471,232
Tangible Personal Property Tax		177,919

Licenses, Taxes, and Fees-

Fish and Game		12,110
Delinquent Tax		4,202
Legal Process Tax		7,062

\$ 806,706

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	72,771
Delinquent Tax		6,162
Deed Transfer Tax		15,368
Occupational Licenses		708

95,009

Payments to Other Districts:

Tangible Personal Property Tax	\$	262,830
Delinquent Tax		17,317

280,147

Payments to Sheriff 545

Payments to County Attorney 5,066

BRACKEN COUNTY  
 KAREN RUMFORD, FORMER COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Period January 1, 2002 Through January 5, 2003  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	76,780
Materials and Supplies-		
Office Supplies		746
Other Charges-		
Dues		1,174
Libraries and Archives Grant		41
Postage		2,564
Office Cleaning		207
Hardware and Software Maintenance		489
Miscellaneous		3,193
Capital Outlay-		
Office Equipment		<u>360</u>
	\$	85,554

Debt Service:

Lease Purchase - Copiers	\$	4,996	
Lease Purchase - Postage Machine		<u>318</u>	<u>5,314</u>

Total Disbursements		<u>\$ 1,278,341</u>
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Net Receipts		\$ 79,138
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Less: Statutory Maximum		<u>57,862</u>
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Excess Fees		\$ 21,276
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Less: Expense Allowance		<u>3,600</u>
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Excess Fees Due County as of January 5, 2003		\$ 17,676
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Payments to County Treasurer - February 10, 2003		<u>17,676</u>
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Balance Due at Completion of Audit		<u><u>\$ 0</u></u>
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The accompanying notes are an integral part of this financial statement.

BRACKEN COUNTY  
NOTES TO FINANCIAL STATEMENT

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at January 5, 2003.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months and 6.34 percent for the last six months of the calendar year.

BRACKEN COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 January 5, 2003  
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits:

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 2, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$10,759 of public funds uninsured and unsecured.

The former county official's deposits are categorized below to give an indication of the level of risk assumed by the former county official at year-end or as of April 2, 2002.

	<u>Bank Balance</u>
Insured and collateralized with securities held by pledging depository institution in the county official's name	\$ 120,000
Uncollateralized and uninsured	<u>10,759</u>
Total	<u>\$ 130,759</u>

BRACKEN COUNTY  
NOTES TO FINANCIAL STATEMENT  
January 5, 2003  
(Continued)

Note 4. Grant

The former County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives. As of January 1, 2002, the unexpended balance was \$41. An additional \$8,350 was received during the year and interest earned from the grant totaled \$5. Funds totaling \$41 were expended during the year. The unexpended grant balance was \$8,355 as of January 5, 2003.

Note 5. Equipment Lease Agreements

- A. The former County Clerk's office was committed to a lease agreement with Toshiba for two copiers. The agreement requires a monthly payment of \$416 for 60 months to be completed on November 24, 2004. The total balance of the agreement was \$9,584 as of January 5, 2003.
- B. The former County Clerk's office was also committed to a lease agreement with Francotyp-Postalia for a postage meter machine. The agreement requires a yearly payment of \$318 for 3 years to be completed on October 13, 2002. The total balance of the agreement was \$0 as of January 5, 2003. Upon completion of this lease, there is automatic renewal available for consecutive one-year terms.

Note 6. Hardware and Software Lease Agreements

- A. The former County Clerk's office entered into a computer hardware purchase and service agreement with Software Management, Inc. The agreement requires a yearly payment that varies from year to year. The total balance of the agreement was \$11,222 as of January 5, 2003.
- B. The former County Clerk's office also entered into a software license and service agreement with Software Management, Inc. The agreement requires a yearly payment of \$3,000 for 4 years. The total balance of the agreement was \$11,750 as of January 5, 2003.

COMMENT AND RECOMMENDATION



BRACKEN COUNTY  
KAREN RUMFORD, FORMER COUNTY CLERK  
COMMENT AND RECOMMENDATION

For The Period January 1, 2002 Through January 5, 2003

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. Therefore the Auditor of Public Accounts has judged the lack of an adequate segregation of duties as a reportable condition and a material weakness of the former County Clerk.

Because of the limitations of the Clerk's office, compensating controls may offset a proper segregation of duties. Compensating controls would require the Clerk's direct supervision over receipts and disbursements and includes but, is not limited to the following:

- 1) Cash periodically recounted and deposited by the Clerk.
- 2) Surprise cash counts by the Clerk.
- 3) Periodic reconciliation by the Clerk of daily AVIS reports to receipts for usage tax, license fees, and tangible personal property taxes.
- 4) Reconciliation by the Clerk of other monthly collection reports to source documents and the receipts and disbursement ledgers.
- 5) Requiring dual signatures on checks with one being that of the Clerk.
- 6) Examination by the Clerk of payroll checks prepared by another employee and delivering said checks.
- 7) Examination by the Clerk for proper documentation of other disbursement checks prepared by another employee.
- 8) Disbursements mailed by the Clerk.
- 9) Requiring employees to be cross-trained.
- 10) Bank reconciliations should be checked by the Clerk.

We recommend that these controls be performed in order to offset a lack of adequate segregation of duties. Documentation of these controls should be maintained for the auditor in order to verify their existence.

*Former County Clerk's Response:*

*I understand.*

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

*This has not been corrected and is reported again.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

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Members of the Bracken County Fiscal Court

**Report On Compliance And On Internal Control**  
**Over Financial Reporting Based On An Audit Of The Financial**  
**Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the former Bracken County Clerk for the period January 1, 2002 through January 5, 2003, and have issued our report thereon dated March 6, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Bracken County Clerk's financial statement for the period January 1, 2002 through January 5, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Bracken County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
March 6, 2003

